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RUEHKO/AMEMBASSY TOKYO 2396
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RUCPDOG/DEPT OF COMMERCE WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000111

SIPDIS

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SUBJECT: TURKMENISTAN: EBRD EXPLAINS WHAT IS WRONG WITH
OFFICIAL SME LOANS

Classified By: Charge Richard Miles. Reasons 1.4 (B) and (D).

¶1. (C) SUMMARY: European Bank for Reconstruction and Development (EBRD) Resident Office Head, Neil McKain (please strictly protect), explained barriers in the domestic lending industry, such as bureaucracy and loan terms that are unprofitable for banks and untenable for borrowers. By offering SME loans through an arrangement with the EBRD, Turkmenistan has taken a first step towards fostering entrepreneurship. EBRD has included capacity building activities in the credit line project for entrepreneurial loans to two local banks, which could have a significant impact on solving the problems. END SUMMARY.

WHAT'S WRONG WITH LENDING IN TURKMENISTAN

¶2. (C) In a January 14 meeting, McKain said that a major barrier in Turkmenistan's lending industry is its lack of capacity. Lending to small- and medium-sized enterprises is expensive, due to the cost of due diligence, but Turkmen banks fail to charge commercially viable interest rates. Also, loans in Turkmenistan have typically been used to reward friends, family and others who have been loyal to those in charge of making loans. Official pressure from the state to control credit lines is a common stumbling block in small emerging countries such as Turkmenistan. In order to encourage more lending, EBRD will create credit lines of USD 3.5 million each with Senagat Bank and Turkmenbashy Bank that will enable lending to small and medium enterprises. As part of the lending program, EBRD will place credit advisors in the banks for the first part of the project, and include training programs for staff in the banks' credit departments.

STATE BANKS ARE OFFERING LOANS TO ENTREPRENEURS...

¶3. (C) Official Russian-language newspaper Neytralniy Turkmenistan reported on November 6 that Dayhan Bank, Senagat Bank, and Garagum Bank were going to provide soft loans geared towards job creation through development of domestic industry in agriculture, construction, transportation, communications, and information technology. A board consisting of officials from the Central Bank, Ministry of Economy and Development, and the Institute of Strategic Planning would review and approve or deny all loan

applications. Business owners were required to invest 30 percent of the principle, and loans carry an interest rate of five percent.

... BUT THEY ARE NOT PROFITABLE, AND IMPOSSIBLE TO GET

¶4. (C) McKain said that all of Turkmenistan's commercial banks are offering the kinds of concessional loans reported above. He confirmed that the rates are five percent for two years, and added that the loans come with a five-year grace period -- by Western standards, unprofitable. He added that they are difficult to obtain: applicants don't receive the loan amount that they ask for and applicants wait a long time to hear whether or not the loan was approved by the government board mentioned above. McKain said that all loans are collateralized at half of the value of the assets, which creates a situation that is too risky for most entrepreneurs.

In the end, these financial institutions lend money to people who don't need it. (NOTE: In contrast to Turkmenistan's lending terms, EBRD's entrepreneurial lending rates will range from the high 10's to the low 20's, depending on the current London Inter-Bank Offered Rate (LIBOR). END NOTE.)

¶5. (C) COMMENT: By offering EBRD-funded SME loans on commercial terms, Turkmenistan has taken the first step towards fostering entrepreneurship. Additional steps will involve coming up with ways to eliminate arcane rules and practices and create an environment where entrepreneurs can obtain the capital they need. EBRD's capacity building

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segment of the credit line project could make a significant impact on solving this problem by introducing commercially sound lending standards. END COMMENT.
MILES